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**FISCAL IMPACT STATEMENT**

**LS 7512**

**BILL NUMBER:** HB 1216

**NOTE PREPARED:** Jun 8, 2011

**BILL AMENDED:** Apr 29, 2011

**SUBJECT:** Public Works Projects.

**FIRST AUTHOR:** Rep. Davis

**FIRST SPONSOR:** Sen. Walker

**BILL STATUS:** Enrolled

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
X FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** *Common Construction Wage:* The bill provides that the state president of the Associated Builders and Contractors of Indiana appoints a member of a common construction wage committee currently appointed by the governor.

The bill also removes the current \$150,000 threshold for the application of the common construction wage statute effective July 1, 2011, and establishes the threshold for the application of the common construction wage statute at \$250,000 for contracts awarded after December 31, 2011, and before January 1, 2013, and at \$350,000 for contracts awarded after December 31, 2012.

It provides that a committee must consider any written reports with respect to wage scales submitted by the Indiana State Building and Construction Trades Council or the Associated Builders and Contractors of Indiana when making a determination of the common construction wage for a public works project.

The bill provides that a public works project may not be artificially divided to avoid application of the common construction wage statute.

*Study Committee Topic:* The bill urges the Legislative Council to assign the following topics to a study committee during the 2011 legislative interim: (1) The use of an agreement with a labor organization on public works projects covered by a public works statute. (2) Job classifications used in a common construction wage determination.

The bill makes technical changes.

**Effective Date:** July 1, 2011.

**Explanation of State Expenditures:** *Common Construction Wage:* Elimination of the \$150,000 threshold for the application of the common construction wage statute between July 1 and December 31 of 2011 could potentially increase the cost of certain public works projects, depending on administrative actions in the timing of the projects. However, the subsequent increase of the threshold to \$250,000 for CY 2012 and \$350,000 for CY 2013 and after would increase the number of projects not subject to the common construction wage. The wages set by the common construction wage committee are valid for any contract let within three months of the meeting if the committee included the job classifications in the contract. The changes in the appointments to the committee should have no fiscal impact.

*Study Committee Topic:* Statutory and interim study committees operate on budgets established by the Legislative Council based on committee size. Legislative Council resolutions in the past have established budgets for interim study committees in the amount of \$9,500 per interim for committees with fewer than 16 members and \$16,500 for committees with 16 members or more. If the Legislative Council were to assign these topics to an existing committee and the committee were to have any extra meetings to address these topics, there would be additional expenditures for legislator per diem and travel reimbursement for the committee. Any additional expenditures must be within the committee's budget.

**Background:** *Common Construction Wage:* A number of studies suggest that wage determination provisions generally increase the labor cost of public works projects from 5% to 16%, and exemption from this wage determination provision might reduce expenditures. The precise impact of the change cannot be determined. Some studies argue for prevailing wage-type systems on the grounds that they lead to greater efficiency, quality, and safety by providing for a stable, well-trained labor force. If such benefits were not realized, school corporations and universities could realize an increase in cost in the long run. Unfortunately, data limitations and questionable methodology limit the conclusiveness of many studies on prevailing wage laws.

Additional Impact: If, as some studies have shown, common wage requirements increase the costs of labor to the state, then lower wages due to the exemption may have the following effects:

- State income tax collections could decrease (assuming no increase in employment levels), decreasing consumption and further decreasing sales tax revenue.
- Debt incurred to finance projects could decrease due to lower project costs, reducing bonding or property taxes.
- Funds may be available for other public works projects that would have been required for the project. Similarly, capital expenses could be reduced, making more funding available for noncapital expenses in project budgets.

The 2009-2011 biennium budget bill authorized about \$475.2 M in bonding for state educational institutions, and the 2007-2009 biennium budget bill authorized about \$518.2 M.

School corporation construction projects have varied between \$858 M and \$1.7 B over the last eight years.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** *Common Construction Wage: See Explanation of State Expenditures.*

**Explanation of Local Revenues:**

**State Agencies Affected:** State agencies constructing public works projects.

**Local Agencies Affected:** Local units constructing public works projects.

**Information Sources:**

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